

MEETING OF THE BOARD OF FINANCIAL INSTITUTIONS

June 18, 2013

11:30 a.m.

Minutes

BOARD MEMBERS PRESENT:

Dennis Hymas, Louise Kelly, Kip Cashmore, Bill Tingey, and Commissioner Ed Leary. Rick Beard is excused.

DEPARTMENT OF FINANCIAL INSTITUTIONS STAFF PRESENT:

Michael Jones, Paul Allred, and Sonja Long

1. Call Meeting to Order – Commissioner Ed Leary

2. Minutes -

Dennis Hymas made the motion to accept the minutes, Louise Kelly seconded the motion. It was unanimous.

3. Industry input –

Louise Kelly – As far as the Industrial Banks go they are still very focused on the expiration of the moratorium of the Dodd-Frank Act on July 21. They are afraid that there will be a defacto moratorium because the FDIC sits on any application that comes in. She feels that an industry that is not permitted to grow is not destined to be a healthy industry. They are interested to see what is going to happen.

Kip Cashmore – The industry seems to be growing, volume is up and collections are on the rise. New regulatory rules, they are not sure what it is going to mean. They are trying to examine what is coming from a federal government side. All of the states that they deal with seem to like them and see the need for the product. They are just working on DC.

Bill Tingey – He was at an insurance conference recently. One of the classes was on the financial industry. 10 – 15 years ago the primary purchaser of insurance companies was banks; they were really getting into insurance. Now most banks have divested themselves of insurance products. There are no real changes in the insurance industry. Rates are starting to rise. Commissioner Leary said that he was surprised to recently hear that State Farm was actually soliciting franchisees in Utah.

Dennis Hymas – Overall he feels that credit unions are doing better, particularly in Utah. The numbers are looking better each quarter. Right now the main concerns are the small

credit unions that are not profitable. Margins are tight and everyone is looking for ways to increase that.

The Department recently held a town hall meeting for the community bankers; Commissioner Leary will discuss that later in the meeting. He also said that the bankers are looking at some of the same issues as the credit unions. The regulatory burden is heavy on both industries. We could see some mergers within the bank arena as well.

4. Budget - Michael Jones

Michael gave out his handout on the budget. Michael said that we are half a month away from the end of the fiscal year. He went through his handout. Kip asked if the revenue is up because we have to spend more time with new rules and regulations. Michael said that those fees are based upon their CALL report, based on the asset size. It is set in statute. The banks came in with more assets than Michael predicted 22 months ago.

Michael said that he only has a month left on the expenditures side. On current expenses we will be a little bit over on what we had budgeted for, the last three months have been a heavy travel time for us. So travel expenses might be a little bit over. Michael mentioned that the lease payment was on there, he said that there were two years left on our lease. After his review of the budget Commissioner Leary explained the process of leasing our space. A brief discussion was held on how DFCM operates and what our options are for office space.

5. Out of state travel – Michael Jones

He gave out his handout on out of state travel, all changes and new items are bolded. Michael went through those items.

6. Current topics – Commissioner Leary

The St Louis Federal Reserve Bank asked CSBS to help them prepare for a Community Banking conference. They asked CSBS if there were any papers that could be written about the value of community banks across the country and then they asked each state over the next few months if they would hold a town hall meeting with community bankers. They asked this in April. We held our town hall meeting as part of our Bank Advisors Meeting the end of May. We unfortunately didn't have as many bankers as we normally do for that meeting, but we still had a pretty good discussion. The group had been asked to comment on seven questions. That discussion is being summarized into talking points and we will feed that back to CSBS and the Federal Reserve. They will then, as part of their conference, which is scheduled for October present some of these papers and a national summary of the discussion that each state has had. As of the end of May, about 14 states had held their meetings. They would like to have it finished by the end of August. Commissioner Leary went through what the Federal Reserve had given out so far.

- Concern over competition, credit unions mentioned as well as farm credit bureau in the Midwest. Also large bank competition.

- Changes in the mortgage rules. For a number of the community banks, they do do mortgage loans and being able to sell them off in the secondary market has been a source of income. The changes are making them re-think the decision to stay in the loan origination business.
- New capital rules. Increasing capital demands and different way to compute capital.
- Finding good bankers. The department hears often about the difficulty of finding good bankers. Are you meeting expectation of your customers/members often is tied to the quality of the employees you have.
- Bifurcating the regulatory system, one regulatory system for large banks, and then a separate regulatory structure for smaller institutions. It seems to be getting some play in Congress, Utah bankers didn't really mention it.
- Compliance, heard that one already. The overall burden that is being required in compliance is just pure cost for all the institutions.
- Congress doesn't understand or appreciate the value of the community institutions. It comes out in a couple of ways, in the presidential campaign you hear no mention of community bank issues, a sense that they are being neglected by Washington.
- One of the areas mentioned is community banks and credit unions have been able to customize products and services in the past and with the rules going forward, it is a one size fits all.

In the unexpected area some of these discussions we didn't get to in our meeting.

- Maybe as these rules come out we ask that there should be a third party review required before they come out. The primary criteria would be from what it is going to cost these institutions to implement this rule, is there a return on that, is there an improvement.
- No financial institution is the ideal size, everyone needs more scale. Everyone complains about that.
- Industry needs contemporary thinkers. They need people that are innovative, creative in thinking right now. The regulatory environments don't allow for much innovation today. That is part of the complaint.
- Can the community bank model survive if banks are not in the payment system going forward. Banks are central to the payment system, but with such things as Bitcoin, services from Google, anything else like that that would be part of the payment system, banking is not even involved in the payment system. So the question is, as difficult as life is for small institutions if they are not even involved in the payment system it will even make life more difficult for them.

Bankers appreciated the fact that policy discussions take time to be implemented into legislation.

Last meeting we talked about the Senate and House recognizing the UDFI Centennial celebration. On the actual day, May 13 we held a staff meeting and the Governor came and signed a declaration acknowledging UDFI 100 years. After he spoke to us, he stepped out in the lobby and took pictures with the employees.

7. Other business –

8. Next meeting – September 17, 2013.